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SUBJECT: WILL PRIVATIZATION HELP ARMENIA'S DECAYING RAILROAD
INFRASTRUCTURE?

¶1. Armenia's out-dated and decaying railway infrastructure may soon receive a facelift, thanks to a GOAM decision to allow private companies to bid on a 40-year lease for the national rail network. Earlier this month, Presidents Kocharian and Putin discussed the possibility of Russian Railways bidding on the project and on November 21 the French government said the French Railroad would also consider bidding. An improved rail network would strengthen Armenia's economy and may ultimately serve as part of a North-South transport corridor connecting Russia to Iran.

¶2. According to World Bank data, the total main-line length of Armenia's rail network is 839 kilometers. Armenian Railways CJSC claims the total length of railway is 1367 kilometers, but this includes multiple parallel tracks at Armenia's 75 rail stations. The vast majority of the network has not been maintained during the 15 years since Armenian independence. The railroad's only operational international link is with Georgia, but unused junction points also connect the railroad with Azerbaijan and Turkey. The connection with Iran runs through the Azerbaijani exclave of Nakhichevan and is also closed.

¶3. After a difficult period in the 1990s, when traffic volume on the railway fell by 93 percent, the railroad was reorganized and the tariff structure changed. The company started posting profits in 2002 and, according to the World Bank, made a profit of USD 310,000 from January-August 2004. The company declined to provide more current financial information. The carrying capacity of the Armenian railway in its current condition is estimated to be three million tons of cargo and five million passengers annually. According to the National Statistical Service between January-September 2006 the Armenian railroad transported 1.9 million tons of freight and 500 thousand passengers.

¶4. Chairman of the Armenian Railways Ararat Khrimyan, citing a World Bank study, told the press that USD 180 million is needed to upgrade the rail system and replace its outdated pool of rail cars. Under the proposed agreement, the new manager would also have to pay the GOAM a USD 10 million concession fee and two percent of revenues. Khrimyan said it may take a year to prepare the full tender. Russian and French rail companies have both indicated that they are interested in bidding on the 40-year concession.

¶5. In mid-November, Armenia, Azerbaijan, Iran, Russia, Turkey and many other countries also signed an agreement to establish an "Iron Silk Road." Under this highly-ambitious proposal, originally suggested by the UN in the 1960s, counties throughout Europe and Asia would link national rail networks to establish an 81,000 kilometer network running through 28 countries. While this project is still in the nascent stage and a long-shot given the current political situation, the GOAM is hopeful that it might at some point help reduce overland transportation costs.

¶6. COMMENT: Privatization of Armenia's existing rail infrastructure will do nothing to ease the difficulties created by the closed borders with Azerbaijan and Turkey. As a result of the closed

borders, Armenia has no existing rail connection with Iran, and any "Iron Silk Road" would involve coordination between more than twenty countries, making it an unlikely prospect for completion anytime in the near future.

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